

FISCAL NOTE

HB 1917 - SB 2058

March 16, 2005

SUMMARY OF BILL: Reduces the state sales tax on food and food ingredients from six percent (6%) to four percent (4%), effective January 1, 2006.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenues - \$65,100,000 FY06
\$130,200,000 FY07 and thereafter**

**Decrease Local Govt. Revenues - \$1,375,000 FY06
\$2,750,000 FY07 and thereafter**

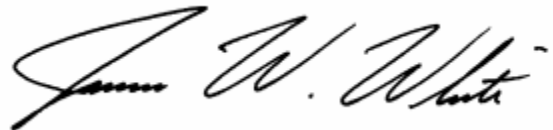
Assumptions:

- Tax base on food is approximately \$7.0 billion per year.
- Annual state sales tax collections on food are approximately \$420.0 million at prevailing rates.
- A 4% state rate on food would generate approximately \$280.0 million per year in state sales tax revenue (\$7.0 billion X 4% state rate = \$280.0 million).
- Initial decrease in state revenues resulting from tax rate decrease is estimated at \$140.0 million per year (\$420.0 million - \$280.0 million = \$140.0 million).
- Initial decrease in local government revenues resulting from the loss of state-shared tax revenue is estimated at \$5.9 million.
- Reducing taxes by \$140.0 million creates additional disposable income for Tennessee consumers.
- 50% spent on other sales-taxable items (\$70.0 million).
- Economic multiplier of 2.0.
- Increase of tax base due to food tax rate reduction is estimated at \$140.0 million (\$140.0 million reduction in taxes X 50% consumption X 2.0 multiplier = \$140.0 million) per year.
- Increase to state revenues from additional tax base is estimated at \$9.8 million (\$140.0 million X 7% state rate = \$9.8 million) per year.

- Increase to local government revenues from additional tax base is estimated at \$3.15 million ($\$140.0 \text{ million} \times 2.25\%$ local option rate = \$3.15 million) per year.
- Net impact to state revenues is estimated as a decrease in revenues of \$130.2 million (- \$140.0 million initial reduction + \$9.8 million recovered = - \$130.2 million net decrease) per year.
- Net impact to local government revenues is estimated as a decrease in revenues of \$2.75 million (- \$5.9 million initial decrease + \$3.15 million recovered = - \$2.75 million net decrease) per year.
- Estimates are pro-rated for first fiscal year due to effective date.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director